Oregon
Kate Brown, Governor

Department of Transportation
Office of the Director
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DATE: February 11, 2019

TO: Oregon Transportation Commission

FROM: Matthew L. Garrett
Director

SUBJECT: HB 2017 – Dedicated Projects

Introduction
HB 2017 identified Connect Oregon funds in the amount of $26 million for an intermodal facility in Treasure Valley and $25 million for an intermodal facility in the Mid-Willamette Valley. HB 2017 directed project sponsors to submit a project plan to the Oregon Transportation Commission (OTC), and if the OTC approves the plan the Oregon Department of Transportation (ODOT) is to distribute the funds after signing an agreement with the project sponsor.

Following the process outlined in administrative rules, ODOT has received and reviewed three proposals for the two intermodal facilities identified in HB 2017. Based upon the perspectives and expertise on freight and transportation matters brought to bear by the ODOT and Oregon Business Development Department (OBDD) staff, the third-party reviewer and the Final Review Committee, several concerns and risks have been raised that I believe are significant enough to warrant that the OTC not provide full funding to any intermodal facility until more clarity or resolution can be achieved.

Background
Because HB 2017 did not specify exact locations and specific project sponsors (recipients), ODOT established a process to solicit potential locations and project sponsors. This process was outlined in administrative rules approved by the OTC (OAR 731-035-0065). Due to the scale and cost of the two projects, this process was set up to be rigorous and require detailed information from project sponsors. The intent of requiring a feasibility analysis, return on investment analysis, and other information was for the project plans to provide a clear picture of their viability, and to establish if funding them would represent a sound investment by the OTC. The amounts specified in HB 2017 represent "not to exceed" amounts for funding, meaning that if unexpected cost escalations occur as part of project delivery, it will be incumbent upon the project sponsors, not ODOT, to come up with any shortfall if the overall project budget exceeds the statutory funding amounts.

The dedicated projects pre-proposal review process resulted in three project sponsors moving forward to prepare and submit project plans. These sponsors are:

- Malheur County Development Corporation-sponsored proposal for the Treasure Valley Reload Center in Nyssa;
- Linn Economic Development Group-sponsored proposal for the Mid-Willamette Valley Intermodal Center at Millersburg; and

- Oregon Shipping Group-sponsored proposal for the Brooks Intermodal and Transload Center.

The project sponsors each prepared and submitted project plans to ODOT for review. Each of the sponsors assembled project plans and employed qualified economics, design, and operations professionals as part of their project teams. All project plans addressed the minimum required elements to begin the review as specified in administrative rule 731-035-0065.

ODOT staff with expertise in freight systems and planning, rail planning and operations, and economic analysis reviewed the three project plans along with the recommendations and findings from an independent third-party review entity (Tioga Group). I also appointed a Final Review Committee of individuals with knowledge of freight and economics within the state of Oregon and the Pacific Northwest.

Risks and Concerns

While I fully appreciate the level of effort the project sponsors placed into preparing their respective project plans, it is clear that each of the proposals contain some significant risks and concerns about their viability. These risks and concerns were identified not only by ODOT staff, but from the Tioga Group and the Final Review Committee as well.

For the Treasure Valley proposal, reviewers noted that the estimates for the share of the onion market (the only commodity proposed for the facility) are optimistic, and would not result in year round utilization of the facility. The facility would also be in direct competition with the Union Pacific-owned Cold Connect facility in Wallula, WA, and service to the proposed eastern destinations could take up to six days longer than from this WA facility. The underlying volume forecast may be optimistic, which makes it likely that the benefits and return on investment (ROI) analysis are optimistic as well.

As cited in the Tioga Group summary report, the crucial factor is the willingness of Union Pacific to provide enough rail cars, acceptable service, and acceptable rates to realize the shipping benefits, and the willingness of a Treasure Valley Reload Center operator to provide trans-load services at acceptable rates. Additionally, the staff review has noted that the estimated track costs may be too low relative to other recent track siding projects, and might require additional expenditures on the part of the project sponsor.

Both of the proposals from the Mid-Willamette Valley envision rail service to Seattle/Tacoma and acknowledge the fundamental fact that shipping via truck costs less than rail when the distance is less than 500 miles. In either case, some form of cross subsidization of the rail service by the ocean carriers or other entities would be necessary in order for these facilities to compete with the costs of trucking. Trucking would still be the primary mode of shipping within the area, and the truck traffic reduction in the Portland area would be insignificant--estimated by ODOT staff to be an approximately 1% reduction of truck traffic crossing the Columbia River on both I-5 and I-205.

In addition, both proposals include letters from the rail authority, however the level of commitment to service is not guaranteed. While the rail letter for the Brooks facility generally indicates a readiness to commit to service from the Portland and Western Railroad, there is

nothing from Union Pacific nor Burlington Northern Railroads regarding commitment to service and rates at their Portland transfer locations. For Millersburg, the letter from the Union Pacific Railroad indicates receptiveness but is non-committal at this time. It is important to acknowledge the willingness of the railroads to commit to service will be limited until one or more of these proposals come to fruition and anticipated freight volumes are more certain. As was identified by all review groups, the economics for either of the Mid-Willamette Valley proposals will come down to service commitments from the railroad and a rate structure that will enable the facilities to be competitive with trucking.

Finally, based upon the economic analysis by Tioga Group, either Mid-Willamette Valley proposal will require some form of subsidy to help make the cost of using rail comparable to trucking. Without some form of continuing subsidy, the cost of continuing to ship commodities by truck appears to be less than by rail through either proposed facility. While the Tioga Group notes that this subsidy is most likely to come from ocean carriers operating out of the Puget Sound area, there is no guarantee this would happen. While the Millersburg proposal does have Northwest Container Services as part of their team and it is clear that they have established relationships and rate structures currently with these ocean carriers, there is no information detailing if these rates would be extended to the Millersburg site.

As I evaluate these risks for all of these project plans, they come down to the following:

1. Commitment to service from the rail operator is crucial. While I acknowledge that there is some chicken and egg analogy here, I strongly believe that the OTC should be seeking more clarity from the rail operator that service to these facilities will occur and that the likely rate structures would make their use competitive to trucking.
2. Lack of clarity around the source of needed subsidies associated primarily with both Mid-Willamette Valley proposals.
3. Reliance on one primary commodity from the Treasure Valley facility and the fact that Union Pacific Railroad operates a similar cold storage facility in Wallula, WA that would be in direct competition with a potential Treasure Valley facility.

While there are several other risks and challenges that will need to be addressed if any of the three proposals are approved and moved forward to construction, I believe they can be addressed through the agreement process. However, the risks identified above must be addressed first before I can recommend any of the proposals be approved for construction funding.

Benefits

While in my opinion the risks that have been identified are significant, I do recognize there are a number of benefits to the State of Oregon if these facilities are successful. First, these facilities would provide additional transportation modal options for businesses in exporting Oregon commodities throughout the rest of the country and across the globe. Investments in these intermodal facilities would mirror previous successful efforts, such as those for expansion of rail and barge service at the Port of Morrow in Boardman to help reduce truck congestion and diversify the means of shipping for Oregon businesses.

Beyond the direct benefits to the private shippers, both intermodal facilities could serve as catalysts for additional investments in the surrounding areas. The intermodal facility in Millersburg would act as a cornerstone to the broader brownfield redevelopment of the former

International Paper production site. The Nyssa site could incentivize business to stay in or relocate to Oregon to take advantage of the new facility rather than locate across the Snake River in Idaho.

Conclusion and Recommendation

The OTC is being asked to decide whether to invest $51 million of public money into these two facilities knowing there are several risks and concerns flagged by multiple review groups. The review process was established with the goal of establishing an unambiguous and obvious answer about the proposals' viability. However, the reviews led to the conclusion that while each of the project plans might potentially be viable, all of the identified risks and issues would need to be resolved in order to achieve success.

Accordingly, based on the information provided to me to date, I offer the following. I concur with the principal reasons offered by the Tioga Group in their summary reports (dated 1/7/19, 1/8/19 and 1/9/19) and the Dedicated Projects Final Review Committee (letter dated 1/25/19) to advance the sponsors of the Treasure Valley Reload Center and Mid-Willamette Valley Intermodal Center at Millersburg into negotiations with ODOT for an intergovernmental agreement. I also acknowledge the caveats embedded in their respective narratives that the project sponsors still have several critical areas that have yet to be addressed that speak to the operational and economic feasibility of said projects.

Therefore, and given the significance of the concerns raised by these various review groups, I strongly encourage the OTC to proceed in incremental steps. These steps should be sufficient to allow the project sponsors to develop their designs and the information they will need to address the needs of the rail operator as they make their business decision regarding service and rate structures for both facilities. However, these steps should also be designed with clear milestones and "off-ramps" in case project sponsors do not receive the approvals necessary to ensure rail service and rate structures to ensure the facilities will be commercially viable.

To aid in this incremental approach, I suggest that prior to the Commission's March 21, 2019 meeting, the OTC require the project sponsors for the Treasure Valley Reload Center and the Mid-Willamette Valley Intermodal Center at Millersburg to identify a clear path and timeline to resolve the unanswered questions related to the Union Pacific Railroad's commitment to these projects and the identified need at Millersburg for operational cross-subsidies to ensure commercial viability. I believe that the OTC should request a clearly articulated course of action from the project sponsors related to these challenges as a prerequisite before public funds are fully allocated.